MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BFN3084 – INTERNATIONAL FINANCE

(All sections / Groups)

8th FEBRUARY 2023
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 3 pages with 3 questions only including cover page.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1 (40 MARKS)

(a) Embappie from California, America specializes in cross-rate arbitrage. The following given spot rates are, CAD1.3000/$, NZD1.4005/$ and NZD1.2000/CAD.

(i) Ignoring transaction costs, does Embappie have an arbitrage opportunity based on these quotes? **(5 marks)**

(ii) What steps would Embappie take to make an arbitrage profit, and how would he profit if he had $600,000 available for this purpose? **(12 marks)**

(b) An American investor has an extra cash reserve of $200,000 to invest for six months. The six-month interest rate is 8 percent per annum in the United States and 11 percent per annum in Norway. Currently, the spot exchange rate is €1.55 per dollar and the six-month forward exchange rate is €1.20 per dollar. The treasurer does not wish to bear any exchange risk. Where should he invest to maximize the return? **(14 marks)**

(c) How do vertical integration and labour imperfection influence foreign direct investment? **(9 marks)**

QUESTION 2 (35 MARKS)

(a) Answer (i), (ii) and (iii) based on the table below. Please show your working for each answer.

	American Terms		European Terms	
Bank Quotations	Bid	Ask	Bid	Ask
British Pounds	2.2200	2.2215		
Euros	1.6650	1.6600		

(i) Complete the bid and ask price for both British pounds and Euro under European Terms. **(8 marks)**

(ii) Compute the bid price of euro in terms of pounds. **(3.5 marks)**

(iii) Compute the ask price of euro in terms of pounds. **(3.5 marks)**

(b) What are the basic problems arising in international trade financing and how do the main financing instruments help solve those problems? **(20 marks)**

Continued...

QUESTION 3 (25 MARKS)

An established company in Portsmouth, England has translated its financial accounts into U.S. dollars. The table below presents the balance sheet in pound sterling. The historical exchange rate is $2.55/£1.00 and the spot rate is $2.35/£1.00. Please write the answer in the table in your answer booklet. Do not show the working.

Balance Sheet	Local Currency	Current Rate	Current / Noncurrent	Monetary / Nonmonetary
Cash	£2,300			
Inventory (Current Value = £2,200)	£4,300			
Net Fixed Assets	£4,300			
Total Assets	£10,900			
Current Liabilities	£2,300			
Long-Term Debt	£3,300			
Common Stock	£4,300			
Retained Earnings	£1,000	50		
Cumulative Transfer Adjustment (CTA)				
Total Liability & Equity	£10,900			

(25 marks)

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